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Lieutenant Governor

# State of Utah

## DEPARTMENT OF NATURAL RESOURCES

MICHAEL R. STYLER  
Executive Director

### Division of Oil, Gas and Mining

JOHN R. BAZA  
Division Director

June 25, 2013

Outgoing  
C0250005

R

Kirk Nicholes  
Alton Coal Development, LLC  
463 North 100 West, Suite 1  
Cedar City, Utah 84720

Subject: Authorization to Commence Phase II Mining, Alton Coal Development, Coal Hollow Mine, C/025/0005

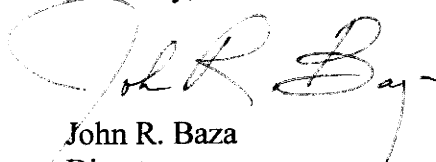
Dear Mr. Nicholes:

On June 25, 2013, Alton Coal Development provided a rider to the Division of Oil, Gas and Mining (the Division) which increased the Coal Hollow Mine bond to \$10,000,000 in anticipation of conducting Phase II mining.

With this bond in place you are hereby authorized to commence mining in the Phase II area. Phase II mining is, however, limited to 82.5 acres of disturbance at this time. Your ability to mine within the entire 94 acre Phase II area is contingent upon you getting in connection with our engineer, Pete Hess, and rectifying the discrepancies in the bond cost estimate. Should the reclamation cost estimate be higher than the amount currently posted, ACD will need to post the additional amount prior to going beyond the above acreage limit. Please see the attached technical memo from Pete Hess which discusses the discrepancies.

If you have any questions regarding these requirements or the bond cost estimate, please don't hesitate to call Daron Haddock at 801-538-5325 or Pete Hess at 435-613-3731. Best of luck in your mining endeavors.

Sincerely,

  
John R. Baza  
Director

JRB/DRH/ss  
Attachment  
cc: Price Field Office  
O:\025005.COL\PhaseIIApproval.doc



June 26, 2013

TO: Daron Haddock, Title V Coal Program Manager

*DDH*

FROM: Peter Hess, En Sci III, Reclamation Bond Amount Determination

*PHH km sds*

RE: Change in Mining Sequence, Alton Coal Development, LLC, Coal Hollow Mine,  
C/025/005, Task ID # 4323

The Problem: Bond Amount Posted Remains Short of Amount Determined by the Division as Being Necessary to Reclaim the 94 Acres Associated with Phase 2

**Background:**

The Coal Hollow Mine was sequentially permitted and bonded in three Phases. Only Phase 1 (\$ 6,045,000) was posted prior to permit issuance (November 10, 2010).

The Permittee has extracted the coal from the pits and reclaimed much of the surface associated with them, although none of the reclaimed areas has received any Phase of bond release. The total performance bond therefore remains at \$ 6,045,000.

The Permittee submitted an application to change the sequence of overburden and coal removal on April 3, 2013. The two reasons for requesting this change in mining sequence were

- 1) to be able to uncover overburden in one area, while coal was being removed in another, (i.e., a two pit operation), and
- 2) to move the location of the Phase 3 mining area to a more favorable location for a face up of underground entries. Two Pits on the extreme southern end of the fee coal property were negated from mining because of anticipated high rates of ground water inflow.

The Division completed the engineering and reclamation cost estimate for Phases 1, 2, and 3 for the Task ID # 4323 application on April 10, 2013, with a Phase 2 reclamation cost including escalation in an amount of **\$ 10,555,000**. This figure was determined after requiring the Permittee to submit 2013 R.S. Means unit costs and current Cost Mine Coal Cost Guide Data for 2012. Several errors were discovered in the Permittee Phase 2 cost estimate, however, sufficient data was supplied that the Division could calculate a reclamation cost estimate for

Phases 2 and 3. The Phase 2 reclamation cost estimate including escalation through 2017 is the figure **\$ 10,555,000**.

The Permittee posted an additional bond amount of \$ 3,271,000 to reclaim Phase 2 on June 17, 2013. This amount brought the **Total Posted Bond Amount to \$ 9,316,000**.

On June 25, 2013, the Permittee posted **an additional \$ 684,000**, bring the Total of the posted bond to **\$ 10,000,000**.

## **Phase 2**

Chapter 8, page 8-2 of the Task ID # 4323, Section 830.140, Detailed Estimated Costs indicates that the reclamation cost for Phase 2, as determined by the Permittee is \$ 9,888,000.

Page 4 (the last page) of Task ID # 4323, the section titled **BONDING**, states that "*the overall cost estimate for Phase 2 including facilities, specialized reclamation areas and mine reclamation using this process is approximately \$ 9,316,000*."

The Division has determined that that reclamation cost for Phase 2 amounts to \$ 9,846,829. This cost was escalated for 4.66 years (through 2017) and the amount of escalation dollars was determined at \$ 707,692.00. The total bond cost amounts to \$ 10,554,521.00.

The amount of bond which must be posted to disturb the 94 acres associated with Phase 2 is \$ 10,555,000 – \$ 6,045,000 = **\$ 4,510,000**.

**On June 17, 2013, the Permittee posted an additional \$ 3, 271,000**, bringing the total posted bond amount to **\$ 9,316,000**.

**On June 25, 2013, the Permittee posted another \$ 684,000** bringing the total posted bond amount to **\$ 10,000,000**.

The \$ 3,955,000 of bond is enough to reclaim **82.5** acres of the 94 acres associated with Phase 2 of the Coal Hollow Mine.

## **Findings:**

The figure of \$ 10,000,000 is the posted bond amount for the Coal Hollow Mine as of June 25, 2013 and it is **not the full amount required to cover the reclamation cost estimate for Phase 2 which has been determined by the Division as \$ 10,555,000**.

Therefore, an additional amount of \$ 555,000 must be posted prior to mining the remaining 11.5 acres associated with Phase 2.

## **RECOMMENDATION**

The Permittee has posted \$ 10,000,000 of bond, the amount of which is adequate to ensure the reclamation of all of Phase 1 and approximately 88 % of Phase 2 (82.5 acres). The Permittee must post an additional \$ 555,000 of bond prior to initiation of mining activities in the remaining 12 % of Phase 2 (11.5 acres).

The Division should allow the Permittee to initiate mining in the first 82.5 acres of Phase 2, based on the commitment of Alton Coal Development to post the remaining \$ 555,000 prior to mining the remaining acreage of Phase 2 (94 acres total disturbance in Phase 2).

**The Division should require monthly updates of the acreage disturbed per month in Phase 2 to ensure that the Permittee does not exceed the 82.5 acres bonded for in Phase 2 as of June 25, 2013.**

The amount of bond which must be posted to mine Phase 3 at the Coal Hollow Mine is estimated at \$ 6,972,000.